

County Administrator's Budget Message

Introduction

The County Administrator and the Division of Budget and Finance are pleased to present to the Board of County Commissioners and the citizens of Monroe County the proposed budget for the coming fiscal year ending September 30, 2007. This budget includes not only the results of the efforts of people throughout the County Administration, but also similar efforts by the Constitutional Officers, with policy guidance and instructions from the Board of County Commissioners.

The County has continued with its successful process toward more professionalized and refined budget preparation and adoption. In previous years, the review process has progressed from one of line by line detail to one of the Board of County Commissioners dealing with policies and trends so that the budget discussions could truly become a clear indication of where the Board of County Commissioners wished to place its priorities.

During fiscal year 2004, the Board of County Commissioners gave approval for the Budget to be presented in a new modern format. This step forward presents much more clearly, the relationships among the revenue sources, expenditures and personnel. The Board of County Commissioners will be able to see at one time how these fit together for the various divisions and departments. We have proceeded from the budget being a document prepared solely by OMB to one where the individual departments input their own budgets and describe changes and variances from the preceding year. The system is very user friendly and allows for greater interaction with the individual departments. The budget, by its very nature, is the implementing document for the series of policies and programs that the County will pursue. Recognition of improvement and professionalism in the County's budget was provided by the Government Finance Officers Association (GFOA), granting the County its Distinguished Budget Presentation Award for eight fiscal years in a row, 1999 through 2006.

The Board has expressed on several occasions the difficulty in understanding the County's Capital Improvements plan which has previously been presented in a large spreadsheet format with very small print. The Office of Management and Budget has listened to the Board and is happy to roll out the County's Capital plan in its new format which is available through a new module added to the Govmax software. This module has the capability of providing a vast amount of information about each capital project and will provide the decision makers with better and more complete information as time goes on. (See Section U).

During fiscal year 2006, many major issues developed that will have direct impacts upon the fiscal year 2007 budget and the tax rates for the various taxing districts. In Monroe County there is a tendency to dwell upon the more controversial issues, forgetting that most of what the County government does on a daily basis it does well, quietly, and without controversy. The proposed budget for fiscal year 2007 reflects the continuation of effective services, as well as responding to the more controversial issues and major challenges pertaining to state and federal funding and state mandated local government cost increases.

Last summer, starting in July, the county was hit with three major hurricanes; Dennis, Katrina, and Rita, and at the start of fiscal 06, in mid October, hurricane Wilma caused wind and water damage to the County not seen in decades. Although the County was declared for public assistance for all of the storms, the federal funding percentage was at 75% of the total eligible damages.

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This meant the state would fund 12.5% and the final 12.5% match would come out of the County's General Revenue Fund. Since the Federal Emergency Management Agency allows 18 months to complete certain disaster repairs, the match portion paid by the county which is not finalized, could easily exceed \$5 million. This would result in a decrease in the General Revenue Fund Balance of the same amount. Although this decrease is significant, the County's reserves remain healthy and will be restored to pre- hurricane levels over time.

- The budget, tax table and millage table reflect the split of the Sheriff's budget into countywide and municipal policing functions, which first occurred in the fiscal year 2001 budget. In addition, there are 7 new Municipal Service Taxing Units which have been created by ordinance, for wastewater. These new MSTU's were established last year, but fiscal 2007 will be the first year of taxation for Stock Island, Cudjoe-Sugarloaf, Big Pine, the revised Conch Key, Long Key- Layton, and Duck Key Municipal Service Taxing Units. The Big Coppitt MSTU, also new, was first levied in fiscal 2005, not levied in 2006 and will again be levied in fiscal 2007. In addition, the Board approved the repeal of the Marathon MSTU, as that municipality elected via ordinance to be independent of the Florida Keys Aqueduct Authority (FKAA), and now has the authority to deal with all issues concerning wastewater. The City of Marathon has the authority to levy it's own ad valorem taxes for the purposes of dealing with wastewater, making the levy by Monroe County through an MSTU unnecessary.
- On July 20, 2005 the County passed resolution number 263-2005 to authorize on October 4, 2005 a referendum election for the electors of the district to approve the district assessing and imposing ad valorem taxes not to exceed one mil and the said referendum was approved by the voters and created the Key Largo Fire Rescue and Emergency Medical Services District, a district that will be fully independent of the County as of October 1, 2006 making the levy by Monroe County through the district 6 MSTU unnecessary as well.
- The budget reflects the requirement that the Tourist Development Council provide thirty percent of revenues toward tourist related capital projects costs, such as beach improvements and museums.
- The budget responds to the instructions of the Board of County Commissioners to utilize fund balances according to policies established by the BOCC. During our March 2006 presentation to the BOCC, the recommendation was again made to appropriate an additional 2½% of estimated ending 2006 fund balances going forward; that change is reflected in this budget except for Fine & Forfeiture (Fund 101) which remains budgeted per the original policy at 70% of the 2006 estimated fund balance. The Fine and Forfeiture fund remains a major concern as the fund balance has dropped below \$9 million. This fund which mostly supports the Sheriff's operations should be at least \$10 million for cash flow purposes, especially in the first 3 months of the fiscal year as the monthly draw checks which will approach \$3.5 million are distributed to the Sheriff before property tax revenues start hitting the fund, this could overdraw the available cash in that fund.

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The Office of Management and Budget is attempting to correct this deficiency by closely monitoring the revenues and expenditures of this fund, and conservatively forecasting activity.

- The budget addresses the issues of employee compensation in conjunction with stated goals of the Board of County Commissioners to have adequate compensation levels to attract and retain qualified employees.
- The budget reflects the control of costs, for this year again, in the group benefits program and even restores the prescription plan co-pays to a more affordable level. Dental and Vision benefits are available to employees through nominal payroll deductions, and research is currently being done to add the benefit of an annual physical without first having to meet the deductible. There has been however an across the board increase in the Florida Retirement Systems (FRS) rates which translates to a budgeted increase of more than 2%. This especially affects the budgets for the county's special risk employees of the Sheriff's and Emergency services divisions.
- The budget continues to reflect the impacts of low interest rates, but has anticipated some increases in interest revenues as a result of recent short-term rate hikes implemented by the Federal Reserve. The Federal Reserve has raised the Fed Funds (overnight rate) seventeen times in a row since mid 2004 to 5.25%.
- The budget addresses some of the inequities and operational problems that occurred during the reorganization and downsizing efforts in fiscal year 2001. A Deputy County Administrator position has been created, and Management Services has been split into two new divisions, Employee Services and Budget and Finance. Additionally, Fire Rescue and Emergency Management have been combined and are now known as Emergency Services; and Housing and Community Development was created as new division in 2006. Finally, the Engineering Department was split off from Public Works and is now the Division of Engineering, and Solid Waste is once again part of Public Works. Technical Services has also been made into a separate division.
- The budget includes the County's continued support for human services and social services provided by community based organizations, at an increased funding level as decided by the Board of County Commissioners and communicated to the Human Services Advisory Board.
- The budget responds to state mandated cost increases, especially in reference to juvenile justice funding, and Baker act requirements.
- The budget responds to the impacts of the State government's Revision 7 to Article V of the Florida Constitution, in 2005, which overall saved the county approximately \$1.5M in the first year of implementation, and will continue to save the county resources as the funding for state courts is provided from state revenues, and funding for offices of the Clerks of the Circuit and County Courts performing court related

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functions, shall be provided by adequate and appropriate filing fees and service charges.

- The budget maintains an increased funding level for Emergency Services mainly for compensation. There are additional needs in this area and it is projected that the combination of operational budget authority and equipment funding in the infrastructure sales tax account will assist with some of the improvements. The budget also reflects concluded contract negotiations with the International Association of Firefighters, which ratified their contract with the County on December 30, 2005. Also included are the budget requests from the Sheriff which include costs associated with the maintenance of a new Helicopter for 2007, which is also the final year of a three year contract negotiated with the Fraternal Order of Police.

Budget Themes

The fiscal year 2007 budget is a continuation and reflection of advances made in previous years that stabilized what had previously been difficult situations in some of the funds. The policy established by the Board of County Commissioners in reference to fund balances has served to provide predictability as to the availability of funds to respond to general needs and problem areas. This policy has again been changed to appropriate 2 ½ % more of the estimated 2006 fund balance going forward. This change has increased revenues by \$3.5 million. The only exception of stability of the various funds not already mentioned, is in the Road and Bridge fund, which, as has been reported to the Board in the past, was in danger of using up its fund balance and requiring the Board of County Commissioners to shift costs to ad valorem taxation within the next few years if it wished to maintain the same level of services. To remedy this problem, Social Service transportation and Veterans Affairs transportation have been shifted to the General Fund. While this temporarily sustained the fund, it is in danger again of using up its fund balance as the county continues to generously distribute gas tax revenues to the municipalities.

This budget continues the progress made in various areas in previous years. As was discussed in previous budget messages, the budget presents a balanced picture of the need for fiscal conservatism and the desire on the part of the citizens for increases in services. As in past years, a number of other themes were prevalent in the budget. Many of these will be familiar to the Board of County Commissioners since they have been major influences on the budgets for years.

- The budget responds to outside pressures that have a major impact upon the County's finances. This includes the cost of property insurance which shows up as higher premiums in the County's risk management fund, as well as the necessity of complying with federal mandates such as the Americans with Disabilities Act, the Fair Labor Standards Act, the Family and Medical Leave Act, Federal Department of Transportation Drug/Alcohol Program requirements, Occupational Safety and Health Administration requirements, etc.

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The budget reflects continued stability in the workers' compensation fund, but responds to cost increases in the risk management fund. Some policy increases as high as 30% above the previous year. While the fund is sound overall, we will continue to monitor the increases in premiums.

- The budget continues to respond to mandates upon the County government. One of the major issues is the detention facility on Stock Island and the need to maintain and protect that huge investment. Maintenance and operations are identified in both the County Administration and the Sheriff's budgets.
- The budget continues to respond to the Board of County Commissioners' policy of expanding park and recreational facilities. There are funds budgeted for the increase in maintenance and upgrading of existing parks as well as the building of at least one new major park. While there are permitting issues in this area, every effort is being made to move these projects forward.
- The budget responds to ongoing daily services provided to citizens. There are increases and improvements in many of these services, especially in emergency services, libraries, growth management, and housing & community development. Affordable housing, which is one of the county's biggest challenges, is also better positioned to respond to this ever growing need.
- The budget continues to respond to major long range initiatives and policies adopted by the Board of County Commissioners, including the implementation of the Comprehensive Plan, the Livable CommuniKeys Program, the preparation of new land development regulations; implementation of wastewater treatment programs, and the activities necessary to comply with the Administration Commission's new work program and rule. The cost of compliance with the requirements of the Carrying Capacity Study will need to be shared with other governmental levels.
- The budget responds to compensation policies established by the Board of County Commissioners. In fiscal years 2000 and 2001, a merit program was funded and implemented. In fiscal years 2002, 2003, 2004 and 2005 the Board of County Commissioners established an across the board compensation level for all County employees including those under the Constitutional Officers (7% for 2002, 4% for 2003, 2.4% for 2004, 7% for 2005, and 3.3% for 2006).

In addition, the Board approved a Recruitment and Retention Program. The combination of these items substantially reduced turnover in those areas under the Board of County Commissioners. In March of 2006, a proposal was made to the Board of County Commissioners to give employees a Cost of Living increase of 3.4% which is equal to the increase in the Consumer Price Index Urban (CPIU) year over year of December 2005. This raise would be effective at start of fiscal year 2007, in conjunction with an anniversary increase of 5%. During fiscal 2006, adjustments were made to certain employee's salaries whose grade levels were not increased in prior years.

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Union members of the Sheriff's and Emergency Services employees will receive increases in accordance with their respective contracts. 2007 will be the second of five years proposed, that employees would receive a Cost of Living increase, along with a merit increase of 5% effective on their anniversary date. Merit increases are given to all employees who meet or exceed expectations on their annual performance evaluation.

- Although the budget responds very clearly to the continuing commitment of the Board of County Commissioners to fund human service and social service agencies in the community through the work of the Human Services Advisory Board, there are other requests from community organizations for additional funding, which have been carefully considered.

Challenges Addressed

It seems as though many of the challenges faced by Monroe County Government are present each year. Some of the items discussed below have been discussed in previous budget messages and substantial progress has been made.

However, they have a major impact on the overall budget each year and need to be identified as ongoing activities. Some of the other items discussed are new and can be handled in one budget year. Hopefully, in addressing these major challenges, the Board can see that each budget does not exist by itself, but rather is another step in a continuing effort to provide and improve services to the citizens.

As a result of the cutback of approximately 123 positions under the Board of County Commissioners during fiscal year 2000, many of the operating areas of the county are running very thin. Much of what the Administration does is in a crisis mode rather than developing longer range plans and implementing those plans over time. This budget reflects not only decisions made by the Board of County Commissioners in fiscal year 2005 to reverse some of this trend, but also in other areas to return to more efficient and effective operations, through the creation of additional but smaller divisions.

From fiscal year 1998 to fiscal year 2006, the number of full time equivalent positions under the BOCC has decreased from 623 to 523. This has included both County-wide and municipal services. The proposed fiscal year 2007 budget has a net increase of 34 positions including the Board of County Commissioners and the Constitutional Officers, some of which were added during fiscal year 2006.

Group Benefits Program – The County has made major strides over the last few years in correcting the previous problems associated with the group benefits program and its' fund.

During the fiscal year 2004 budget preparation, the Board made substantial changes which proved to be controversial on the part of employees and retirees. However, the changes addressed the estimated increase and have served to stabilize the group benefits fund once again for fiscal year 2006. The County is not facing the major group benefits problems as it has in recent years, and it is projected for fiscal year 2007 that there is no need for any consideration of additional contributions by employees and retirees.

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The Board should be aware that the group benefits program includes not only health care but also pharmaceutical coverage, as well as an Employee Assistance Program along with life insurance for participants. The costs of all of these are included under the premium paid by the County on behalf of the active employees and the subsidized premium paid for retirees and dependents. There is only a \$50 per month premium paid by retirees who currently receive full benefits under the program. The County also subsidizes the cost of dependent coverage by about 60%. The result is that the great majority of program costs are paid by the Board of County Commissioners through the internal premium billing process, which is supported approximately 87% by ad valorem taxation.

It should also be recognized that the program covers not only approximately 486 employees under the Board of County Commissioners but also 816 employees under the Sheriff and other Constitutional Officers. There is a total participant count of approximately 2196 employees.

In addition, there are approximately 291 retirees covered under the program. When the Board of County Commissioners first instituted retiree coverage in 1988, there were only 12 retirees.

The growth in that number, as well as the growth in health care costs, dependents' subsidy, pharmaceutical costs, major cases, etc., has contributed to a rapidly growing group benefits program, with fiscal year 2007 being a projected year of stability.

In its' deliberations over the years, the Board of County Commissioners has been most sensitive to the needs of employees, retirees and dependents. The County has been slow to increase dependent contributions recognizing the direct impact upon employee take home pay, especially for more moderate income workers. It has also been of great concern that retirees felt they were irrevocably entitled to free health care after retirement, even though that is not borne by the policies that have been in place.

In the past, each time there has been a discussion of the group benefits program, the Board of County Commissioners has decided either to do little in the way of major changes and thereby assuming the growing costs, or, as in March, 2001, has made some significant changes which balanced the needs of the program and the County with the covered individuals. In April of 2003, the Board of County Commissioners considered the entire group insurance program and the need for reducing costs substantially in adjusting the manner in which parts of the program were funded. The Board decided to adjust the deductible, the medical co-pay and out of pocket limit including the pharmaceutical program, the dependent subsidy, retiree contributions, and some other specific service level benefits. In addition, the Board decided that the vision and dental parts of the program should be provided separately through employee payroll deductions as employees deem appropriate for their personal situations. The overall change was a savings of approximately \$3.8 million, approximately \$3 million of which was ad-valorem taxation.

The Board of County Commissioners is aware of the continuing problem, even as information is available about the effects on other governments and the private sector all over the country. Changes made in the fiscal year 2004 budget have been extremely helpful in protecting the program for the employees. During 2005, we have reduced the price of pharmaceuticals by reducing the co-pay amount for the preferred brand drugs. This increase had a direct cost to the county of approximately \$250,000. Despite this expenditure, the group insurance fund remains fiscally sound.

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The Board has also been kept informed of changes previously proposed and adopted by the Government Accounting Standards Board (GASB). It became necessary to review the group benefits program, especially the free health care for retirees portion, to reduce what was an approximate \$65 million dollar unfunded liability. Changes made in 1999 by the Board of County Commissioners in reference to eligibility for the retiree benefit reduced that level to approximately \$26 million dollars.

However, the County has experienced a major increase in the number of retirees, presently 291, and the trend continues. The County's consultant has indicated the exposure has risen substantially to approximately \$150 million. There is currently no requirement to fund this liability; however, it will be required to report the amortized portion in our financial statements for fiscal year 2007. Although compliance with the new accounting rules is expected to exert financial stress and bring to light previously unknown liabilities, the rating agencies expect the disclosure effects will be largely positive over the long term. GASB 45 does not increase costs of employment, but rather attempts to fully reveal them. Under current practice the County only pays the costs of Other Post Employment Benefits (OPEB) due in the current year without making any attempt to accumulate assets to offset future benefit costs. While **the statement does not mandate funding**, GASB 45 does establish a framework for pre-funding of future costs.

Comprehensive Plan – When the 2010 Comprehensive Plan took effect in July of 1997, the County focused its' attention to implementation. Much has transpired since then and the County has been funding significant parts of that plan.

In 1999 the Governor and Cabinet, sitting as the Administration Commission, adopted a new multi-year work program requiring the County, in conjunction with a variety of other agencies, to meet certain goals over the life of the work program. In recent years, the County has made substantial strides. Fiscal year 2007's budget includes \$500,000 for Comprehensive Plan implementation. General work associated with the wastewater program has been funded. The capital costs are being handled mostly through the capital program.

Last year, the Board decided to establish six new taxing districts to raise wastewater funds. Although the districts were created, no taxation was levied for wastewater with the exception of Marathon, Bay Point and Key Largo. Included in the proposed budget figures and on the millage sheet for 2007 there are six taxing districts levying for the first time including the revised Conch Key district, and the (Big Coppitt Municipal Taxing Unit) which first levied in 2005 will once again levy in 2007 to collect monies to fund wastewater projects in that area.

A major effort during the year in reference to implementing and improving the Comprehensive Plan will be the continuation of the Livable CommuniKeys Program. This will continue on Big Pine Key in conjunction with the habitat conservation program and the countywide carrying capacity study.

There are program areas for Stock Island and two additional areas in the Lower Keys from Little Torch to Sugarloaf and Rockland to Saddlebunch. In the Upper Keys, there will be an ongoing Livable CommuniKeys Program in Key Largo and Tavernier.

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Human Service Organizations – During the preliminary budget discussions, the Board of County Commissioners reviewed the level of funding available to the Human Services Advisory Board. The funding recommended by the Human Services Advisory Board is \$2,326,581 for 2007, an increase of \$149,301 from the Fiscal Year 2006 adopted budget.

There are also additional requests from a variety of nonprofit agencies for approximately \$1,705,020 for fiscal 2007 over and above the numbers from the HSAB. This is an increase of \$116,987 from the Fiscal Year 2006 adopted budget. The dramatic upward trend in funding the not-for-profit organizations is not new. Under the philosophy of devolving power back to the states, the federal government has provided states with additional responsibilities for programming yet has provided fewer resources to support these programs.

Likewise, the states have been shifting more programs, especially in the human and social service category, back to local communities with less funding support than previously provided. Since community needs continue to exist and to grow, local government frequently becomes the last refuge to provide the much needed funding for community service organizations.

Monroe County Health Department- During the 2006 budget process the County received a budget request of \$524,459 from the Florida Department of Health. This is a 53.4% increase over the fiscal year 2005 request of \$342,034. This year's request of \$720,000 appears on the proposed 2007 millage sheet as the third line item (Other) of total countywide services and is not under a separate listing in the budget book. (See page B-38) The Monroe County Health Department, like the county and other agencies and businesses in the keys is experiencing a dramatic turnover rate and is having trouble filling vacancies. One creative solution being proposed is to move positions that are not required to be in Key West to the upper keys which would provide a larger workforce pool from South Miami-Dade County and provide the current employees a better chance to purchase a home. In exchange for the increase in their budget, they are willing to give up valuable space in the Gato building which the county could fill with county departments or agencies that are currently paying rent, as the offset to the increase in their budget.

Solid Waste and Recycling Rates – The impact of hurricane and tropical storm clean-up costs from 1998 and 1999 have caused some concern in reference to the rates. Similarly, these concerns will become apparent again as the county continues to recover from the storms of 2005 and Wilma which struck the county at the beginning of fiscal 2006. However, the fund balance continues to be strong and it is anticipated that the fund will stay secure. After last year's budget process, the Administration was concerned that there would need to be an increase in the residential collection rate to cover the cost of residential collection, recycling, related programs, and haul out. Efforts have succeeded in stabilizing haul out rates for the past three years and next three years, doing away with various cost elements in the contract with the haul out contractor. New franchisee agreements have been negotiated and adopted. There has not been an increase in rates since October of 1995.

Key West International Airport Terminal Renovation Project (Mc Coy Terminal Complex) -On April 19, 2006 the Board of County Commissioners approved a plan of finance for the New Terminal Complex at Key West International Airport. The County's engineer URS has estimated the total project cost to be \$31,186,901 not including interest and other debt issuance costs.

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This cost has been used by the County's Financial Advisors and Airport consultants in the analysis of financial feasibility. The majority of the project cost will be funded by a (VRDO) Variable Rate Demand Obligation. \$5.0 million of the cost has been pledged by the county in the Capital improvements plan, which will cover the non-(PFC) Passenger Facility Charge approved portions of the project. The current plan of finance assumes \$8.708 million in state grants and \$4.6 million of (FAA) Federal aviation Administration (AIP) Airport Improvement Grants which will be used to advance repay the V.R.D.O's. A commitment letter from the Bank of America for a direct pay letter of credit not to exceed \$35,402,740 in principal and interest was approved and executed, and will provide the liquidity and credit support for the V.R.D.O's. The Airport bonds are currently scheduled to be priced on the open market on July 18, 2006, which is also the pre-closing date, and the County will receive the proceeds by wire transfer on July 19, 2006.

BUDGET SUMMARY

This section will cover a number of issues with which the Board is generally concerned. These issues are highlighted to assist in an understanding of the major issues that are creating changes.

Presentation March 2006

In anticipation of changing budget situations, the Administration presented an overview of history and issues to the Board of County Commissioners to help prepare for the budget year. The presentation covered a wide variety of issues including the ones identified below.

The presentation discussed increasing property values in Monroe County. There has been substantial annual growth in property values and, as a result, ad valorem millage rates in most areas of the Keys have been reduced over the last five years, with some fluctuation as a result of the municipal incorporations.

The most recent figures supplied by the Monroe County Property Appraiser indicate that property values County-wide have increased from \$21.7 billion for fiscal year 2005 to \$26.8 billion for fiscal year 2006, an increase of 23.5%. As in the past few years, properties that are non-homesteaded will experience a much larger tax increase than homesteaded properties which are also protected by the "Save Our Homes Cap" which caps the taxable value at the lower of 3% of the assessed value of the prior year, or the percentage change in the consumer price index.

The presentation also, identified a number of major issues that were important for this year's budget presentation. Included among those were compensation, stabilized group benefits costs, insurance cost increases, non-profit funding, state budget issues and cost shifting to the County, and the County Commission fund balance policy. A detailed presentation of the County's fund balances over time and the fluctuations in the funds was also given. Discussions of those issues showed the Board of County Commissioners the potential impacts on County government, before the Board even began considering County services.

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SUMMARY OF ISSUES

The Board did not provide specific instructions concerning the preparation of this year's budget as it had in the previous years. This is probably a reflection of the fact that this year's budget does not have all of the major negative impacts as was prevalent in some recent years' proposed budgets. However, the Board did provide some guidance in reference to its desire for adequate compensation for employees and the Administration is quite aware of the Board's concern about non-profit funding and the rapid increase in costs.

One major issue that has caused great confusion and concern among governments throughout the State, during 2005 was Revision 7 to Article V of the Florida Constitution. This revised a wide variety of responsibilities for funding and implementing court related activities. The additions and subtractions from the County budget show up in a number of ways. Overall, this revision is projected to again save the County approximately \$3.5 million in court related expenditures, while also decreasing certain revenues by approximately \$2.1 million previously budgeted by the County, for a net \$1.4 million decrease in expenditures. This change in statutory requirements for court funding is expected to continue to be beneficial for Monroe County.

Appropriations

The overall proposed appropriations for the coming year are in Section E starting on page 1 of the budget book, in a form entitled "Fiscal Year 2007 Proposed Budgetary Cost Summary". The increase in the adopted budget from fiscal year 2006 to the proposed fiscal year 2007 is from (\$320.9 adopted) million to \$392.9 million a \$72 million (22.4%) increase. The Majority of the increase is due to the airport debt that is scheduled to close by the end of this month. That borrowing which is currently budgeted at \$37.8 million will be entirely paid for by grants and other airline passenger fees that are collected from the flying public. Monroe County has pledged \$5 million of its capital plan resources, which are generated by the one cent infrastructure sales tax. So, the entire new terminal project will not cost a single dollar of ad valorem taxation.

In reference to the **operating departments** under the Board of County Commissioners, it is important to note the organizational changes which took place during the fiscal 2006 budget process.

	<u>Variance</u> (In Thousands)
Board of County Commissioners	+\$ 9,288
Employee Services (Reorganized)	- 1,308
Public Works (Reorganized)	+ 3,151
Growth Management	+ 3,440
Community Services	+ 547
Veterans Affairs	+ 39
Airport Services includes new terminal	+ 36,146
Emergency Services (Reorganized)	- 170
Guardian Ad Litem	+ 19
Engineering (New Division)	+ 14,783
Hsg. & Comm. Dvlp.(New Division)	+ 586
Budget & Finance (New Division)	+ 120
Elected Officials (Constitutional Officers)	+ 3,588
Appointed Officials and Boards	+ 1,744
TOTAL	71,973 (Rounded)

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The next section will demonstrate the specific changes that are impacting the proposed fiscal year 2007 budget.

Changes in Costs of Operations

Board of County Commissioners – As a result of how fund accounting requires presentation of financial data for governments, and BOCC policy decisions, the BOCC section of the budget shows an increase of approximately \$9.2 million. This is primarily due to an increase in Reserves of \$5.8 million which includes \$2.7 million of reserve funds that are required as a result of the variable rate demand obligations and an increase in budgeted transfers of \$1.9 million, in anticipation of increased debt service for wastewater and affordable housing.

In addition, an increase of approximately \$600 thousand has been budgeted for Miscellaneous due in part by the state mandated costs of funding the juvenile justice program, which increased by \$465 thousand. Increases in Human Service Advisory Board and other non-profit funding are not finalized at this point, and are not expected to have the large increase from last year of over \$1.5 million.

Because of the concern of the Board of County Commissioners about expenditure levels, this section will be concerned primarily with the increases and decreases **by division** for those services directly under the Board of County Commissioners. The information contained below is included in the Budgetary Cost Summary by official/division and the backup material.

1. Employee Services Division – The Management Services Division has been split into two divisions, Employee Services and Budget and Finance. While Employee services show a decrease of \$1.308 million, this primarily reflects the transfer of the Technical Services department out of employee services and into a division of its own, which reports directly to the County Administrator. (See Technical Services History on page E-1)
2. Budget and Finance Division – Grants Acquisition/Management and Purchasing are both separate business units under the Budget and Finance division, which has an increase of \$120 thousand due primarily to salaries and benefits. There are no other significant changes in this Division.
3. Public Works Division - This budget shows an overall increase of \$3.151 million. This increase partially due to the reorganization which took place during the FY06 but the largest change is in facilities maintenance which has increases in Card Sound Road Renewal and Replacement, (\$1.3 million); gas tax expenditures, (\$1.1 million); and increases in the road department of about \$ 600 thousand.
4. Growth Management Division – The Growth Management budget is \$3.4 million more than fiscal year 2006. This is due to a number of factors. The largest change is the variance due budgeting legal fees in Growth Management Administration for additional land use cases, some of which are still pending. Other increases are for GIS (Global Imaging Satellite), Marine Projects, and the building department.

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5. Community Services Division – There is a net increase of \$547,731. This increase is due to increases in all of the business units of the division such as Animal Shelters, Administration, Extension Services, Social Services and Libraries.
6. Veterans Affairs Department – This Department, which stands as an independent Department outside of divisions, shows a \$39 thousand increase. This is primarily the result of compensation and benefits.
7. Key West International Airport – First, the Board should be aware that because of organizational changes, the Marathon Airport is now budgeted under the Airport Services. It was previously budgeted under the Public Safety Division, which has been combined with Fire & EMS and is now called Emergency Services. Additionally, the borrowing of approximately \$38 million in Principal, Interest and other Debt Service costs are also budgeted in the Airport Division.
8. Emergency Services – As reported above, Emergency Services is a new division which has combined Fire Rescue and Public Safety. Previously, the Fire & Rescue Services Division encompassed Fire Rescue and Ambulance of the, lower middle and upper keys; the Fire Marshal, the Upper Keys Healthcare Taxing District and the LOSAP plan. Emergency Services is now comprised of everything in the old Fire Rescue services division as noted, and all of the old Public Safety Division except for Marathon Airport which is once again part of Airport Services. Solid Waste, is now included as part of Public Works. Emergency Communications is budgeted separately under Appointed Officials and Boards. Keeping all of these changes in mind with respect to this new division, the net decrease \$170 thousand is caused by no new positions budgeted.
9. Guardian Ad Litem – Because of changes in state funding of various programs due to revision 7 of Article V, the County budgeted \$138,866 for the Guardian Ad Litem program in FY 2005 and it has increased by \$42,000 for FY 2006 to \$180,448, and minimally again in 2007 to \$198,920
10. Engineering - Engineering was presented as a separate division for the first time in FY 2006. It previously was shown as part of Public Works. This division includes the County's Capital Plan. The majority of this net increase of approximately \$15 million dollars is the preliminary budget of physical environment projects for wastewater which the board needs to make a final decision on. Specifically, there is currently \$16 million budgeted for the Key Largo Wastewater Treatment District over two years, but the decision of how to allocate the state grant is not reflected in this budget.
11. Elected Officials - Budgets for the Constitutional Officers and the County's obligations to the judiciary show an overall increase of \$3.5 million. This represents an approximate \$2.7 million increase from the budget of the Sheriff. That increase does not include the person service line items of Health Insurance, Worker's Compensation, and Retirement which is budgeted by the county.

County Administrator's Budget Message

The Sheriff's budget is now over \$51 million. Other additions include the Tax Collector which is based on a percentage of total taxes collected, and other Constitutional Officers which reflect personnel related expenditures.

Appointed Boards and Officials – The overall increase in this category is \$1.7 million. This reflects mostly \$2.1 million increase for the transfer of Technical Services from the Management Services Division, (now Employee Services and Budget and Finance), to the County Administrator. While the increase shows up as \$2.1 million, that number is actually netted against the Tech services history which shows up in employees services for an overall increase of \$769 thousand.

There is an overall Budget increase of \$72 million or 22%. The above numbers show that the total budget is a compilation of a variety of numbers which sometimes have direct relationships with each other. This increase is a combination of increases and decreases that have some impact upon ad valorem taxation but, in many cases, do not.

The Tourist Development Council is funded entirely by bed taxes. The Capital Plan is funded by the One Cent Infrastructure Sales Tax, and the Airport Terminal Reconstruction project is funded by Grants awarded by the Federal and State Governments and fees paid by the flying public.

Personnel

Section D, page 1 shows the adopted personnel status as of the adoption of the fiscal year 2006 budget. It includes information that was available from the Constitutional Officers. There was an increase of 34 positions under the Board of County Commissioners **and** Constitutional Officers.

Major Issues

There are issues of which the Board should be aware in the development of this budget. Some of these have been discussed previously and are repeated here for the sake of putting them together with other issues that are part of our considerations.

1. Budgeted Fund balance appropriations have been included in the budget according to the policy decisions made by the Board of County Commissioners with the recommended change of increasing percentages by 2 ½ %. This increase was applied only to the funds that had balances that could sustain the additional appropriation.
2. Full cost allocation figures have been applied to next year's budget based on actual 04' expenditures and are included under the budget of the Board of County Commissioners. These budgets are likely to change in the adopted budget as we finalize the new cost allocation plan put together by KPMG is finalized.
3. The budget includes no adjustments for either benefits or costs in the group benefits program. The changes made in fiscal year 2004 and other controls have resulted in a stable year for that fund.

County Administrator's Budget Message

4. It is not necessary to recommend to the Board of County Commissioners any additional changes for the proposed fiscal year 2007 budget. The audited fund balance in the group insurance fund as of September 30, 2005 is 7,974,808, which is \$3,593,360 above the 2004 fund balance of \$4,381,448.
5. While the Group plan is actuarially sound, implantation of GASB 45 will reveal the unfunded liability of Other Post Employment Benefits (OPEB) that are future liabilities of the County on the 2007 balance sheet.
6. During the previous years' budget discussions, there was consideration of incentives and recruitment and retention issues. The Retention and Recruitment Program has generally been a success. In addition, the administration has been working with educational opportunities and incentives based upon the obtaining of certifications and specialized training that will benefit the employee and the County. These programs will continue in the coming year.
7. The cost of living in the Keys has continued to increase significantly, and the value of property has increased even more dramatically. Recruitment and retention of employees have become major issues. The compensation proposal included with this budget is an outline within which the Board of County Commissioners can attempt to establish fairness for all County employees while providing the ability to attract and maintain quality people to serve the citizens.

Tax Implications

Included in Section B, starting on page 38, are the millage sheets reflecting this proposed budget. The millage sheet shows the trends taking place for fiscal years 2005, 2006 and proposed for 2007. The property values that underlie the millage information were derived by the Property Appraiser and show a 23.5% increase in values across unincorporated Monroe County. This is down slightly from the 25% increase that took place during tax year 2005.

The aggregate figure is a combination of the millage figures throughout the various taxing districts. It is a total of millages and not an actual rate paid by anyone. For example, if the Board will review the "millage rate" column under fiscal year 2007 bottom line aggregate, it will see the total millage of 3.3787 %. That aggregate figure is merely a total.

The rolled back figure is the millage rate necessary to raise the same amount of taxes next year as in the current year. Because of the dramatic increase in property values, the adopted rolled back rates came in significantly lower than the current millage rates in almost every case and in some cases the adopted millage rates are lower than the previous year.

It should be noted that the Local Health Unit (the State Health Department) is listed at a total taxation of \$720,459 that is a 37.4% increase above the current year. The total General Purpose Municipal Service Taxing Unit shows an increase from the rolled back rate, with a proposed increase in taxation of 1.5 million which is necessary for the funding of parks and beaches in the unincorporated areas of the county.

County Administrator's Budget Message

The Local Road Patrol Law Enforcement District shows an increase of 5.19% and the Lower and Middle Keys Fire and Ambulance District 1 an increase of 3.4%. The Municipal Service District 6, which is primarily Key Largo, shows a decrease of 100% or \$1,276,972 as a result of the new independent district which is authorized to levy its own taxes in 2007. The proposed aggregate then is 16.05 % over the rolled back figure.

The new wastewater taxing districts (6) cover the remaining areas of Monroe County not previously created and have a tax impact upon those areas. The five previously created MSTU's of Marathon, Conch Key, Bay Point, Big Coppitt and Key Largo collectively, only raised an additional \$70,157 for Fiscal Year 06. For fiscal 07, the new wastewater districts of Stock Island, Cudjoe-Sugarloaf, Big Pine-Summerland, Conch Key, Long Key-Layton and Duck Key have been activated for fiscal year 2007 and will raise an additional \$3.2 million in wastewater funds.

General Information

The general fund is divided into two categories, Library and Other. The tax collection for the Library portion of the fund has been combined with other general fund activities. Additionally, the line "Other" includes a wide variety of general fund activities. Impacts in these lines reflect a loss of state shared revenues, and decreases in county funded court related expenditures in combination with the compensation increases planned for fiscal year 2007.

The next line item is Law Enforcement and Jail Judicial. This includes mostly the Sheriff's budget for county-wide services. There are unincorporated taxing districts that provide various municipal services. The General Purpose Municipal Service Taxing Unit (MSTU) includes the entire growth management, fire marshal, parks and beaches functions. Next is the Local Road Patrol Law Enforcement District. This covers the municipal policing services that the Sheriff provides in the unincorporated areas of the County.

Another municipal service that shows an increase is in the Lower and Middle Keys Fire & Ambulance District 1, which includes all of unincorporated Monroe County except for Key Largo, which will become the new independent district on October 1, 2006, and Ocean Reef, which is District 7. During 2005 and 2006, the Board created several new Wastewater Municipal Service Taxing Units.

The last number in the lower right corner of the millage sheet shows a \$12,682,995 increase in the total amount of taxation to be collected. \$8 million is directly related to the Fine & Forfeiture fund balance, which has dropped below \$9 million, which is less than the necessary minimum balance for cash flow purposes, in conjunction with the increase in the Sheriff's Budget. There is also \$3 million more in wastewater funding, and \$2.5 million in decreases due to the repeal of the Marathon MSTU since that Municipality has the authority to collect its own taxes, and the creation of the new independent fire rescue/ambulance district in the upper keys which will also levy its own taxes in 2007.

County Administrator's Budget Message

CONCLUSION

It should be noted at this time that the budget does include some proposals for increased County services and facilities. Attempts to address recruitment and retention and the problems of turnover and qualified employees being able to afford the keys economy are being addressed. These are problems that may never be solved, but at least there is an effort being made to deal with them currently. Other state mandates such as retirement contributions that were legislated this year are reflected in the budget.

Each year, the State of Florida undergoes a traumatic budget process. The result is, at the very least, great consternation and nervousness on the part of county and municipal governments and the levels of funding and the programs they must operate. It can only be hoped that in the next budget year there will be a much more objective and fair approach to the funding of public services.

During fiscal year 2005 and at the start of 2006, the county has been affected by 4 named hurricanes. While there are Federal and State relief grants available to absorb a large portion of these costs, there is still a tremendous exposure to the county in the dollars that are required to match these grants. The total cost to the county from Dennis, Rita, Katrina and Wilma hasn't been finalized, and it is mentioned here only to point out the need to keep the fund balances healthy, and to provide the required cash flow while the county applies for and is granted reimbursement for these storms and future storms.

It must be noted that over the years, the Board of County Commissioners has maintained an extremely strong financial position while continuing to support services and facilities as required and needed by our citizens. The current proposed budget maintains that recent history and prepares a sound base for fiscal year 2007 and beyond.

County Administrator
July, 2006